

MEMORANDUM

September 15, 2005

TO: THE LOS ANGELES COUNTY CLAIMS BOARD

FROM: JOYCE M. AIELLO
Principal Deputy County Counsel
Government Services Division

RE: People of the State of New York by Eliot Sptizer, Attorney General
of New York, vs. Aon Corporation, and Related Actions
Supreme Court of the State of New York, New York County
Index No. 05-400726

DATE OF
INCIDENT: January 1, 2001 through December 31, 2004

AUTHORITY
REQUESTED: Accept payment of \$ 23,713.12

COUNTY
DEPARTMENT: Chief Administrative Office

CLAIMS BOARD ACTION:

☒ Approve ☐ Disapprove ☐ Recommend to Board of
Supervisors for Approval

Rocky Armfield, Chief Administrative Office
ROCKY ARMFIELD

John F. Krattli, County Counsel
JOHN F. KRATTLI

Maria M. Oms, Auditor-Controller
MARIA M. OMS

on October 3, 2005

SUMMARY

This is a recommendation to accept the payment of \$23,713.12, as the County's share of the settlement of a class action lawsuit filed by the New York Attorney General against Aon Corporation ("Aon"), for improper placement of insurance coverage with carriers that paid contingent commissions, failure to disclose those commissions, bid inflation, and alleged "bid rigging."

LEGAL PRINCIPLES

A corporation can be held liable for engaging in fraudulent and anti-competitive practices.

SUMMARY OF FACTS

In March 2005, the New York Attorney General and Superintendent of Insurance commenced an action against Aon alleging, among other things, that Aon engaged in "bid rigging," improperly steered insurance placements to insurers that paid Aon contingent commissions, and failed to adequately disclose the contingent compensation arrangements. Similar actions were also filed by the Attorney Generals of Connecticut and Illinois, and the Director of the Division of Insurance in Illinois in March 2005.

Aon has entered into a settlement agreement to resolve each of these actions. As part of the settlement, Aon agreed to establish a Settlement Fund to compensate those "U.S. policyholder clients who retained Aon to place, renew, consult on, or service insurance with inception or renewal dates between January 1, 2001 through December 31, 2004, where such placement, renewal, consultation, or servicing resulted in contingent commission or overrides recorded by Aon between January 1, 2001 through December 31, 2004."

Aon has also agreed to implement reforms, including the elimination of contingent commission arrangements, heightened disclosure of compensation sources, and the implementation of internal controls and compliance committees to avoid future conflicts of interest.

DAMAGES

Pursuant to the settlement agreement, the amounts payable to the individual class members are calculated based upon a methodology approved by the various Attorneys General, the Superintendent of Insurance for the State of New York and the Director of the Division of Insurance for the State of Illinois. Using the approved methodology, Aon has calculated the amount of premiums and contingent commissions attributable to each eligible policyholder for each

insurer, for each product line for each year. This methodology eliminates the need for a policyholder client, such as the County, to demonstrate that it suffered any actual harm or injury due to the firm's actions.

Pursuant to the approved apportionment methodology, the County's share of the settlement is \$23,713.12. The settlement will be paid in installments over a period of four years. Monies received by the County will be credited back to the Insurance Budget and distributed to County departments.

STATUS OF CASE

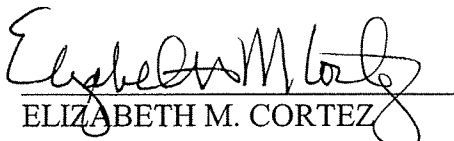
The settlement agreement between the Connecticut, Illinois and New York Attorneys General, the Superintendent of Insurance for the State of New York and the Director of the Division of Insurance for the State of Illinois and Aon was entered into on March 4, 2005. To receive a distribution from the Settlement Fund, a class member must execute the applicable release by October 30, 2005. The form of the release has been approved by the Attorneys General and Superintendent of Insurance.

EVALUATION

The Chief Administrative Office is not aware of any specific facts that Aon has engaged in any wrongful retention or misappropriation of County funds. While it is possible that the County's premium costs may have been impacted by insurer payments of contingency commissions, it would be difficult and costly for the County to independently retain experts to determine the degree to which, if any, the County's policy renewals might have been achieved at lower cost if contingency commissions had not been paid.

In light of the substantial costs that would be required to independently pursue such claims against Aon and the uncertainty of the amount of any recovery, this Office recommends that the County participate in the class action settlement and accept the \$23,713.12 as full settlement of the allegations set forth in the actions. The Chief Administrative Office concurs in this settlement recommendation.

APPROVED:


ELIZABETH M. CORTEZ
Assistant County Counsel
Government Services Division

JMA:EMC:rfm